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Monthly Insights: September Outlook

Industrial Sector

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Sector Price Action & Performance Review: Industrial Sector



The S&P 500 Industrial sector pulled back in August after entering the month near overbought condition. Our MACD oscillator study (chart, panel 3) has pulled back to a neutral position and is giving us a tactical buy signal in the very near-term. Over the longer-term the sector remains a YTD leader vs. the S&P 500, though we've seen some retracement in leading themes at the stock and industry level.

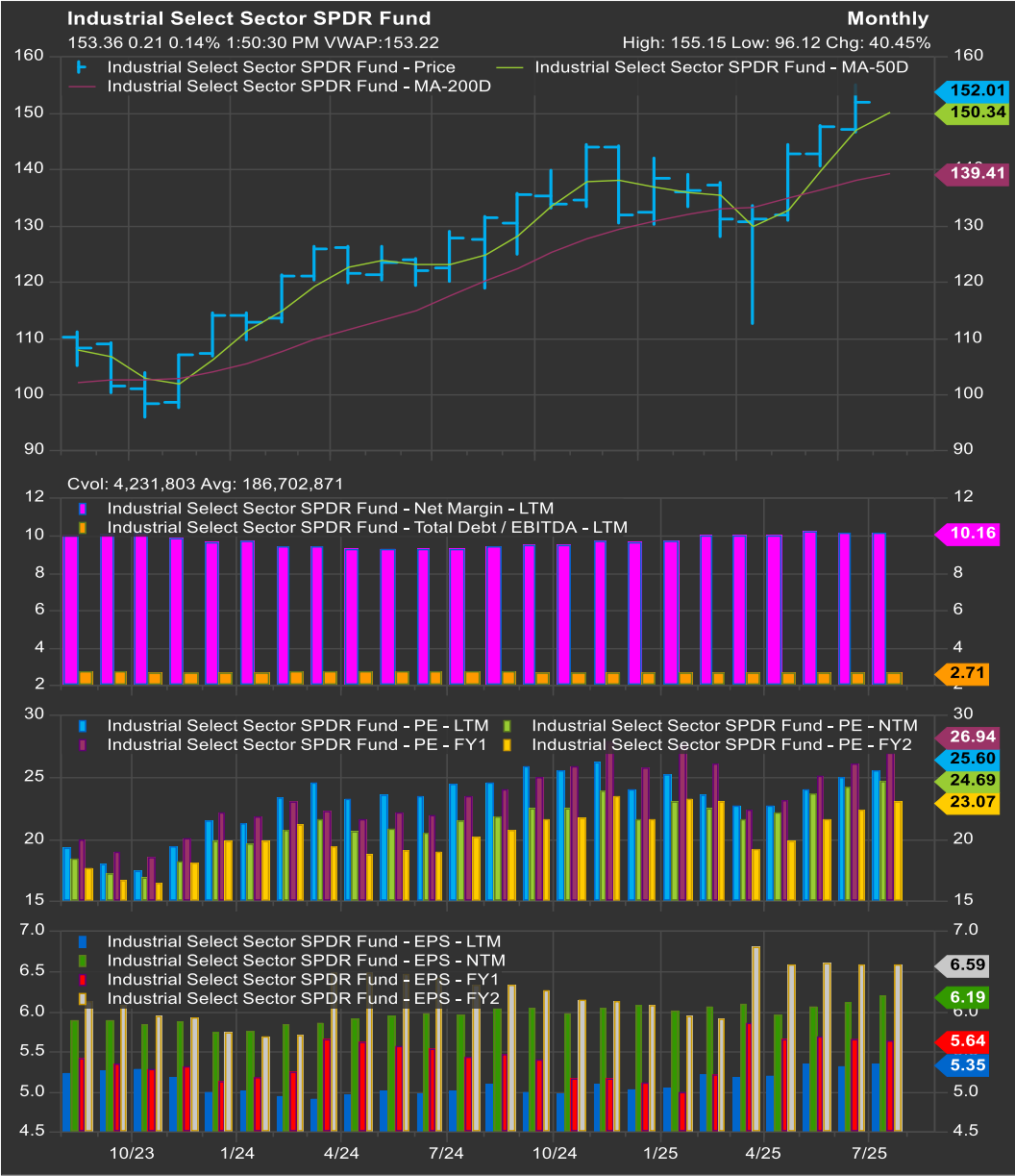
At a high level, onshoring and grid modernization remain key secular themes. With the Fed signaling an elevated potential for rate cuts at the Jackson Hole meeting on August 20, we've seen some firming in building products names tied to the residential construction industry. Renewed bets on the consumer have also redounded to the benefit of Airline stocks in the near-term and the bid has stayed steady for Aero/Defense stocks as the Trump Administration has floated the idea of taking an equity stake in several defense contractors.

Beneath the surface, leading stocks in the Building Products, Construction & Engineering and Electrical Industries were sold in August but remain in strong long-term trends. September will be a test for the buyer as leading names like ETN, PWR, LCII, TT and CARR are presenting potential accumulation opportunities.

Elevated rate cut expectations in the near-term have investors rotating into laggard sectors in the very near-term at the expense of YTD leaders like the Industrial sector. Given the optimism priced into the market from April-August, we are expecting some continued backing and filling in YTD leadership themes.

We start September out of the Industrial Sector with an **UNDERWEIGHT allocation of **-8.76%** in our Elev8 Sector Rotation Model Portfolio vs. the S&P 500 benchmark**

Fundamentals: Industrial Sector



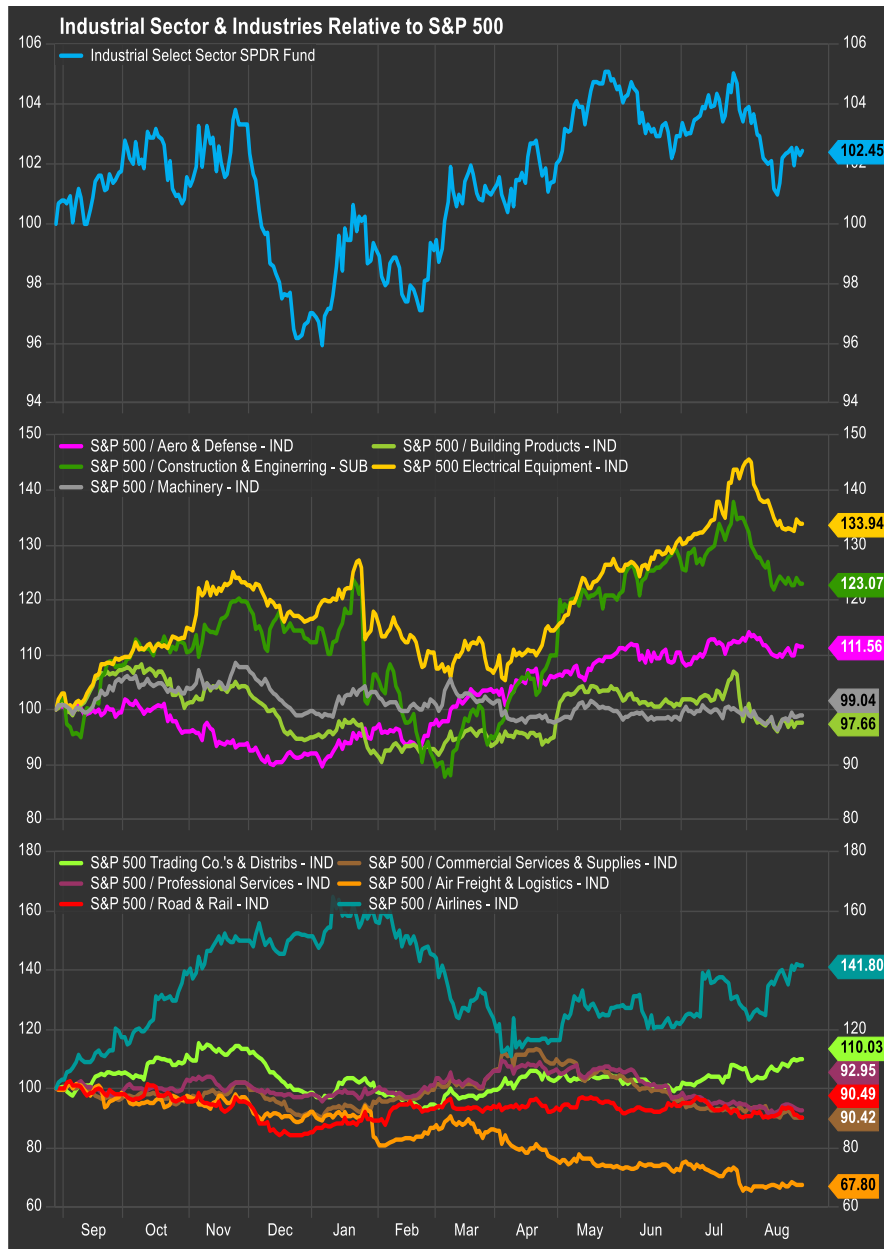
The chart (left) shows S&P 500 Industrial Sector Margins, Debt/EBITDA, Valuation and Earnings

Margins in aggregate have firmed for the sector during the present reporting season (chart, panel 2)

Valuation (chart, panel 3) remains elevated

Consensus 2-year forward earnings projections have remained firm in 2025 (panel 4), however the multiple is somewhat rich at >23x for 10% consensus earnings growth

Industry/Sub-Industry Performance and Breadth: Industrial Sector



Industrial Industries (chart, left): Leading industries pulled back in August as the sector slipped into consolidation vs. the S&P 500

Airlines were a near-term pocket of strength while the Machinery Industry remained mixed bag

We'd expect investors to step in and accumulate some leading Construction & Engineering names on the recent pullback (we like ETN, PWR, JCI)

Industrial Sector Internals (chart, right): **Shorter-term breadth** measures remain weak as August comes to a close while the **longer-term breadth measure** remains in a constructive position

Top 10/Bottom 10 Stock Level Performers: Industrial Sector

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
▼	▼	▼	▼	▼	▼	▼	▼	▼
CHRW	C.H. Robinson Worldwide, Inc.	Bullish Reversal	15,122.8	0.97	22.1	1.3	0.88	23.1
GNRC	Generac Holdings Inc.	Bullish Reversal	10,971.8	0.89	29.7	0.0	1.76	17.6
DAY	Dayforce, Inc.	Consolidation	10,975.1	1.07	9.2	0.0	0.75	14.3
UAL	United Airlines Holdings, Inc.	Bullish Reversal	33,736.1	0.35	15.9	0.0	1.86	12.8
LDOS	Leidos Holdings, Inc.	Bullish Reversal	23,528.4	0.63	14.8	0.6	0.71	10.8
DAL	Delta Air Lines, Inc.	Bullish Reversal	39,999.6	0.38	8.8	0.7	1.95	10.5
MAS	Masco Corporation	Consolidation	15,606.0	0.71	4.6	1.1	1.44	8.9
CMI	Cummins Inc.	Bullish Reversal	55,307.3	0.67	9.2	1.3	1.28	7.6
XYL	Xylem Inc.	Bullish Reversal	35,201.9	1.12	5.1	0.7	1.07	7.5
LMT	Lockheed Martin Corporation	Support	106,102.9	0.68	-6.6	1.9	0.37	6.3

Symbol	Name	CHART_PATTERN	MktVal Co	Valuation Multiple Rel to Index	Momentum Score	Div Yld Multiple rel to Index	3y BETA Rel to Loc Idx	1-Month Excess Return vs. BMK
▼	▼	▼	▼	▼	▼	▼	▼	▼
CARR	Carrier Global Corp.	Consolidation	57,520.6	0.82	-14.4	0.9	1.30	-17.8
LII	Lennox International Inc.	Retracement	19,915.5	0.89	-13.9	0.6	1.14	-15.8
UPS	United Parcel Service, Inc. Class B	Downtrend	64,668.7	0.51	-20.3	5.0	1.06	-15.1
TDG	TransDigm Group Incorporated	Support	78,610.9	1.32	-12.9	0.0	0.99	-14.8
IEX	IDEX Corporation	Downtrend	12,503.7	0.80	-18.1	1.3	0.99	-12.1
EMR	Emerson Electric Co.	Bullish Reversal	75,105.7	0.83	-3.0	1.1	1.39	-12.0
VRSK	Verisk Analytics, Inc.	Consolidation	37,401.7	1.43	-19.8	0.4	0.72	-11.7
TT	Trane Technologies plc	Uptrend	94,388.8	1.21	-7.2	0.6	1.12	-11.7
ETN	Eaton Corp. Plc	Bullish Reversal	136,800.0	1.08	-2.5	0.8	1.08	-11.7
PWR	Quanta Services, Inc.	Uptrend	56,215.2	1.31	4.7	0.1	1.35	-11.1

August featured a rotation into laggard exposures within the Industrials sector

Transports were well represented on the list with DAL, UAL and CHRW up >10%

GNRC confirmed its intermediate-term bullish reversal and LMT got a boost from investor interest in taking a large equity stake

Leading names in the Building Products space corrected as LII and CARR disappointed and we saw some selling in Electrical (PWR) and Construction & Engineering names (ETN, EMR) after strong moves off the April lows

Metrics:

(Formulas are in the appendix at the end of the report)

Valuation Multiple Relative to Index

Premium (or discount) to benchmark valuation

Momentum

Long higher scores, short lower scores

Dividend Yield Relative to Index

Higher scores preferred when rates and equities are moving lower

Near-term Overbought/Oversold

Price is >10% away from the 50-day moving average Above/Below

GREEN|RED

Company scores positively|negatively for Elev8 Sector Rotation Model for April

Economic & Policy Drivers: Industrial Sector

Onshoring & Capex

Machinery and E&C names were among **August outperformers** as reshoring trends and plant construction stayed in focus.

TOL reported better closings and gross margins but ASPs light, highlighting housing-driven demand with affordability pressures.

Smart Grid & Electrification

Industrials commentary emphasized **utility and infrastructure upgrades** (smart grid, electrification) as steady tailwinds.

Freight & Logistics

Rails (CSX) came under **activist pressure** to pursue a deal; Berkshire Hathaway confirmed it was **not looking to acquire**.

Dallas Fed manufacturing survey flagged **excess trucking capacity, falling rates, rising costs**, and **driver strain**.

Parcels/logistics and airlines had mixed performances — **airlines/cruise lines outperformed** on resilient travel demand and softer fuel, but rails/trucking lagged.

Tariffs / Trade

Trump announced a **major 50-day probe into furniture imports**, with **WSM, RH, ARHS** flagged as most exposed.

Ethan Allen (ETD) and **La-Z-Boy (LZB)** cited as beneficiaries due to higher US sourcing.

August Philly Fed showed tariffs driving **input costs to the highest since May-22; flash PMIs** flagged **tariffs as principal driver of sharply higher prices**.

Copper/aluminum pressured by cost pass-throughs.

Defense Spending / A&D

A&D names among top sector performers in August.

Reports surfaced that Commerce Secretary Lutnick proposed **US taking stakes in defense primes (LMT)** to secure supply chains.

Contractors cited resilient **aftermarket demand and strong order books**.

Consumer & Financial Backdrop

Housing & Construction

July **housing starts rose 5.2% m/m**, surprising to upside.

Building permits fell for 7th time in 8 months, underscoring fragility in forward pipeline.

Builders offered **discounts/incentives** to offset soft demand (NYT).

Credit & Financing

Freight companies facing **margin pressure from weak spot rates**.

Financial backdrop supported by Fed easing expectations — September cut odds at **~83–90%** through late August.

Earnings Trends

Freight / Logistics:

CSX under activist scrutiny; trucking flagged **weak backlog trends** and **BTB issues**.

A&D / Defense:

Contractors reported **continued aftermarket growth**; policy tailwinds reinforced.

Machinery / E&C:

Backlogs tied to **onshoring and infrastructure demand**.

Building Materials:

Furniture tariff probe weighed on sentiment for exposed names; margins at risk heading into 2H25.

September Outlook

Onshoring: Expect continued backlog strength in machinery, E&C, and reshoring projects.

Smart Grid: Electrification and grid modernization capex remain supportive.

Freight: Rails and trucking vulnerable to weak volumes, pricing pressure; stabilization possible if consumer goods demand holds.

Tariffs: Furniture and magnets under investigation; trade risk an ongoing drag for materials and building products.

Defense: Elevated budgets + geopolitical risk keep order books strong.

Housing: Mixed signals — **starts firmed, but permits weakening** — a key swing factor for building products demand.

Appendix: Metric Interpretation/Descriptions

Valuation Multiple Relative to Index

Higher scores correspond to more expensive earnings than the index, lower scores are cheaper

Valuation Multiple Relative to Index

(Company Price/NTM EPS)/ (Index Price/NTM EPS)

Dividend Yield Relative to Index

Higher scores correspond to higher company dividend yield relative to the S&P 500 Index dividend Yield

Dividend Yield Relative to Index

Company FY1 Rolling Dividend Yield / Index FY1 Rolling Dividend Yield

Momentum

Long higher scores, short lower scores

Momentum (simple mean)

1-Month Excess Total Return (vs. S&P 500) * 0.2

Plus

3-Month Excess Total Return (vs. S&P 500) * 0.5

Plus

6-Month Excess Total Return (vs. S&P 500) * 0.3

Metric Interpretation/Descriptions

Price Structure

We categorize stock chart patterns into 7 categories

Uptrend—Stock exhibits sustained outperformance

Bullish Reversal—Stock has outperformed over the past 3-6 months by > 10% vs. benchmark

Consolidation—Sideways price action, generally a bearish pattern in a bull market

Retracement—A sharp move lower in a previously strong chart

Distributional—A topping pattern

Downtrend—Sustained underperformance, lagging the benchmark by >15% per year

Support—Price has reached a level where major bottom formations or basing has occurred in the past

Basing—A protracted consolidation at long-term support

Deviation from Trend

Intermediate-term: Price % Above/Below 200-day moving average

Near-term: Price % Above/Below 50-day moving average

Overbought/Oversold (We want to sell overbought charts with declining momentum)

Overbought = Stock price > 25% above 200-day m.a.

Oversold = Stock price > 20% below 200-day m.a.

Near-term Overbought/Oversold (Signals depend on trend context)

Overbought = Stock price > 15% above 50-day m.a.

Oversold = Stock price > 15% below 50-day m.a.